

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

APRIL 29, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler County Judge/Executive
Honorable Kenneth Morris, Butler County Sheriff
Members of the Butler County Fiscal Court

The enclosed report prepared by Percy and Gray PSC, Certified Public Accountants, presents the Butler County Sheriff's Settlement - 2004 Taxes as of April 29, 2005.

We engaged Percy and Gray PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Percy and Gray PSC, evaluated the Butler County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BUTLER COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

APRIL 29, 2005

Peercy and Gray, PSC has completed the audit of the Sheriff's Settlement - 2004 Taxes for the Butler County Sheriff as of April 29, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,286,342 for the districts for 2004 taxes, retaining commissions of \$94,874 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,192,405 to the districts for 2004 Taxes. Taxes of \$356 are due to the districts from the Sheriff and refunds of \$2,160 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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PEERCY AND GRAY, PSC

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Hugh C. Evans, Butler County Judge/Executive

Honorable Kenneth Morris, Butler County Sheriff

Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the Butler County Sheriff's Settlement - 2004 Taxes as of April 29, 2005. This tax settlement is the responsibility of the Butler County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Butler County Sheriff's taxes charged, credited, and paid as of April 29, 2005, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler Judge/Executive
Honorable Kenneth Morris, Butler County Sheriff
Members of the Butler County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC

Audit fieldwork completed -
September 8, 2005

BUTLER COUNTY
KENNETH MORRIS, SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 29, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 238,386	\$ 302,908	\$ 1,004,625	\$ 371,768
Tangible Personal Property	20,983	29,075	88,424	106,955
Intangible Personal Property				50,000
Fire Protection	2,516			
Franchise Corporation	23,671	32,541	94,741	
Additional Billings	30	42	127	5
Oil Property Taxes	191	228	805	298
Gas Property Taxes	1,537	1,838	6,475	2,396
Penalties	2,393	3,022	10,035	3,824
Adjusted to Sheriff's Receipt	(47)	8	(22)	(13)
Gross Chargeable to Sheriff	<u>\$ 289,660</u>	<u>\$ 369,662</u>	<u>\$ 1,205,210</u>	<u>\$ 535,233</u>
<u>Credits</u>				
Exonerations	\$ 2,108	\$ 2,641	\$ 8,852	\$ 4,239
Discounts	3,424	4,369	14,276	7,593
Delinquents:				
Real Estate	6,462	7,927	27,184	10,059
Tangible Personal Property	209	259	882	882
Intangible Personal Property				39
Delinquent Gas	6	8	27	10
Uncollected Franchise	<u>2,572</u>	<u>3,413</u>	<u>5,982</u>	
Total Credits	<u>\$ 14,781</u>	<u>\$ 18,617</u>	<u>\$ 57,203</u>	<u>\$ 22,822</u>
Taxes Collected	\$ 274,879	\$ 351,045	\$ 1,148,007	\$ 512,411
Less: Commissions *	<u>11,970</u>	<u>14,919</u>	<u>45,920</u>	<u>22,065</u>
Taxes Due	\$ 262,909	\$ 336,126	\$ 1,102,087	\$ 490,346
Taxes Paid	262,717	335,699	1,103,267	490,722
Refunds (Current and Prior Year)	<u>105</u>	<u>158</u>	<u>440</u>	<u>164</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 87</u>	<u>\$ 269</u>	<u>\$ (1,620)</u>	<u>\$ (540)</u>

*, ** See page 4.

The accompanying notes are an integral part of this financial statement.

BUTLER COUNTY
 KENNETH MORRIS, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2004 TAXES
 April 29, 2005
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,128,335
4% on	\$	1,148,007

** Special Taxing Districts:

Library District	\$	78
Health District		20
Extension District		39
City of Rochester		12
City of Woodbury		101
Big Muddy		2
Mud River		17
		<hr/>

Due Districts or (Refunds Due Sheriff)	\$	<u>269</u>
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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT

APRIL 29, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 29, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENT
April 29, 2005
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 6, 2004 through April 29, 2005.

Note 4. Interest Income

The Butler County Sheriff earned \$486 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of September 8, 2005, the Sheriff is due \$53 in interest from the school district and \$37 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Butler County Sheriff collected \$17,035 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Butler County Sheriff collected \$1,580 of advertising costs and fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of September 8, 2005, the Sheriff owes \$1,580 in advertising costs and fees to his fee account.

COMMENT AND RECOMMENDATION

BUTLER COUNTY
KENNETH MORRIS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of April 29 2005

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The following compensating controls are recommended to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily receipt and receipts ledger.
- The Sheriff should periodically compare the monthly tax distribution reports to the receipts ledger for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the monthly tax distribution report.
- The Sheriff should periodically compare payments to taxing districts to the checks. The Sheriff should document this by initialing the monthly tax distribution reports, noting that payment amounts were agreed to checks.
- Disbursement checks should be required to have two signatures, one being the Sheriff.
- The Sheriff should periodically compare bank reconciliations to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and balance in the checkbook

Sheriff's Response:

We will do better on this.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

This prior year comment has not been corrected and will be a comment in 2004 as well.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Hugh C. Evans, Butler County Judge/Executive
Honorable Kenneth Morris, Butler County Sheriff
Members of the Butler County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards**

We have audited the Butler County Sheriff's Settlement - 2004 Taxes as of April 29, 2005, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Butler County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Butler County Sheriff's Settlement - 2004 Taxes as of April 29, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

Audit fieldwork completed -
September 8, 2005

